

COMMITTEE ON FINANCE

June 3, 2002

6:30 PM

Mayor Baines called the meeting to order.

Mayor Baines called for the Pledge of Allegiance.

A moment of silent prayer was observed.

The Clerk called the roll.

Present: Aldermen Wihby, Gatsas, Guinta, Sysyn, Osborne, Pinard, O'Neil, Lopez, Shea, DeVries, Garrity, Smith, Thibault and Forest

Mayor Baines advised that the first purpose of the meeting is to hold discussions with Bond Counsel and financial advisor relative to the Revenue Stabilization Fund and any other questions arising relating to the budget(s).

Mr. Kevin Clougherty stated we have Rick Tortora our financial advisor out of New York whose responsibility is when we do a bond issue to make sure that all of our rates that we receive from the underwriters are reasonable and fair and to make sure that our rating presentation to the credit rating houses is presented in such a way as to preserve the best possible rating. We also have Rick Manley who is Bond Counsel for the City and is our tax lawyer to make sure that when we go to the markets we are presenting fair disclosure in accordance with State and Federal laws.

Alderman Lopez stated I am sure you have heard...there has been much discussion in reference to the ordinance that has been adopted in the audit and finance of the City as to we put 5% from the general fund and the school fund into a so-called rainy day fund or revenue stabilization account. We have heard from our Finance Officer and we do respect his opinion and his advice to us, however, some of the questions that I have are just what is your role and your fiduciary responsibility to the City of Manchester and do you rate the City of Manchester. Are you the rating agency for bonds in the City of Manchester?

Mr. Tortora replied we are the financial advisor. What our role is, as Kevin Clougherty said, is we assist the City in structuring its competitively sold bond and note issues. If the City is going to be in the market for a negotiated sale then we

help them with the process of selecting the underwriter that will underwrite the bonds. We run numbers to make sure that the structure meets the City's needs. We help project interest rates. We prepare the City before it goes before the rating agencies, whether it be Standard & Poore's, Fitch or Moody's Investor Service and we assist with the presentation to get a credit rating. We do not, nor does Bond Counsel, rate the City's credit.

Alderman Lopez asked so neither one of you go into the rating aspect of the City.

Mr. Tortora answered we assist the City when it goes before the credit rating agencies.

Alderman Lopez asked who does the rating for the City. The underwriter?

Mr. Tortora answered there are three nationally recognized rating agencies – Standard & Poore's, Moody's Investor Service and Fitch. Each of those three firms rates the City. Actually presently just Standard & Poore's and Moody's Investor Service rates the City. There have been discussions about bringing Fitch on board as well to also provide an independent assessment of the City's ability and willingness to pay their debt service on time. That is what a credit rating agency does.

Alderman Lopez stated so just for the sake of argument if the Finance Officer says I need \$60 million he goes to the underwriter and the underwriter comes back and tells the legal guy okay I am giving \$60 million in bonds and the legal counsel writes everything up right.

Mr. Tortora replied if it was that simple I would be out of work.

Alderman Lopez responded I am not saying it is that simple. I am putting it in layman's terms. That is basically what happens.

Mr. Tortora stated most of the City's debt offerings are general obligation debt offerings that are done on a competitive basis in which case we assist the City as does Bond Counsel with the preparation of the disclosure documents. We print 150 official statements. We mail them to banks and broker dealer firms throughout New England and the country. On a certain day, a designated day, we open up bids for the purchase of the bonds or notes at the lowest interest rate. During that time we also sit down with the credit rating agencies and do a formal credit rating presentation to get their assessment as to the City's credit worthiness for that issue and it's ongoing underlying credit rating.

Alderman Lopez asked isn't it true though that the underwriter looks at the whole picture of the City before he issues bonds.

Mr. Tortora answered certainly.

Alderman Lopez asked can you tell me if you know how many components of items are there in the City that would address...you as a financial consultant, what concerns you in the area of looking at a City as to whether your recommendation as a financial person would advise Kevin that it is a pretty good deal.

Mr. Tortora answered if I understand the question correctly, let me answer the question I think you are asking and certainly tell me if I am off track. If the question is what components go into a credit rating...is that part of the question?

Alderman Lopez replied that is correct.

Mr. Tortora stated the credit rating agencies typically look at four areas. They look at your management team and that is composed of certainly the Mayor and Board of Aldermen, the City Finance Officer and they also look at the outside consultants such as Rick Manley and myself. They look at your management team and your management practices. They look at economic and demographic factors that affect the City. Those being who your largest taxpayers are, who your largest employers are, wealth levels, real property levels, etc. They look at your debt outstanding and how much debt is outstanding and over how long a period of time will you replay that debt, and what did you issue the debt for. They look at your financial performance – budget to actual performance, tax rate increases, strength of revenue, fund balances, etc. Those four components are what the credit rating agencies are concerned with and certainly what we are concerned with as we advise the City when it enters the capital market.

Alderman Lopez asked, therefore, we are in a Double A rating I believe.

Mr. Tortora answered your rating with Moody's Investor Services is a Double A II, which is a very high credit rating. Above that is a Double A I and then a Triple A rating, which probably fewer than 1/2 of 1% of all rated jurisdictions in the country have. With a Double A II credit rating, you are doing very well.

Alderman Thibault stated my biggest concern about this is that if, in fact, we use any of this money will it in fact affect our bonding capacity and to what percentage of interest might it affect it.

Mr. Tortora replied I think your question is would it affect your credit rating and how would that impact on the principle and interest payments that you make. One

of the things that the rating agencies are particularly impressed with with Manchester is your management team and the management practices that you have put in place over the years. Included in that is your debt issuance policy and your reserve fund policy. If, indeed, there were to be kind of a mid-term or a mid course tapping into this revenue it would be a departure from the standard practice that the rating agencies have been Manchester engage in for as long as they have been rated and that would send up the red flags. If the question is how would that impact you, it would impact you in a couple of ways. Right now as we said you are in the Double A credit category, which is a very high credit category. If, indeed, you were downgraded to a Double A III that in and of itself wouldn't be a huge problem but if slipped into the Single A category then a lot changes. As a Single A credit, your debt would have to be insured by an independent bond insurance company.

Alderman Thibault asked how much would that cost.

Mr. Tortora answered there is a significant cost to that. That could cost say $\frac{1}{4}$ of 1% on the rate. So you would pay a bond premium...the way bond insurance works is since the bond insurer is guaranteeing that in the event that Manchester doesn't pay principle and interest on time they indeed will, they are looking for a premium that is based on the total amount of debt service for the life of an issue. Let's say you were doing a \$60 million bond issue and when you factor in the principle of \$60 million and let's say the interest of \$40 million over say a 20 year term, they are going to give you a premium based on \$100 million of debt service. That premium payable at closing would be about \$250,000. That is a cost that the City is able to avoid now because of its high credit rating. The second cost is notwithstanding the fact...let's say you went out and you paid \$250,000 and now that issue itself is rated Triple A. That is the way insurance works. Your underlying rating isn't affected just that issue is now rated Triple A. So the interest rate that you would get on that issue would still be higher than if you sold as a Double A credit on your own because a natural Double A credit typically trades a little bit better than an insured Single A that now is Triple A by virtue of insurance. You have a double whammy. The insurance premium and then the cost of capital for the 20 or 30 years that you are in the market.

Alderman Thibault stated just so I am not confused because I think I might be, in other words you are telling me that let's say we normally would bond it at 3% they probably will charge us $3\frac{1}{4}\%$ plus the fact that they may require us to insure.

Mr. Tortora replied it would almost be a certainty.

Alderman Thibault stated so now we are looking at two extra costs.

Mr. Tortora replied that is correct.

Alderman Smith stated you say we have a Double A II right now. Say we went to a Double A III. What would be the percentage difference in going from a II to a III in percentage and money on say \$1 million?

Mr. Tortora replied it is difficult to quantify and it varies depending on market conditions. Right now we have been in an interest environment where interest rates are very low as we all know when we go to refinance our homes. Right now if the City were to issue 20-year bonds it might get an interest rate of around 4% on the 20-year bond issue. If you went from a Double A II to a Double A III the impact on the interest rate would be pretty negligible. It might be five basis points or ten basis points; not a significant amount of money but the concern is you are starting on that slippery slope down to the Single A where there is a huge impact. Also, as your credit rating declines the likelihood that you would need bond insurance increases. At Double A II maybe there is a 10% chance that a purchaser would go out and secure bond insurance but if you decline to the Double A III category that 10% now might become a 30% likelihood that someone would insure the issue.

Alderman Smith asked if we had a double-digit increase in our taxes what affect does that have on our bond rating.

Mr. Tortora answered interestingly enough it could have a favorable impact because if you think about one of my opening statements to Alderman Lopez it was that the credit rating agencies look at your ability to pay and you certainly have the wealth here in Manchester but they also look at your willingness to pay so the willingness of the Board of Mayor and Aldermen to impose an 11% tax increase because they need to, the rating agencies respond favorably to that.

Alderman Smith stated I am glad you said that really because we are in a situation now where you look at the community – police, fire schools and your labor force and we are having a tough time settling our contracts. Now how would that bear on the bond rating?

Mr. Tortora responded the labor contracts are always an issue. One of the concerns...when we go before the rating agencies and we go through those four categories that I spoke of I guess that is probably part of the financial concern but also it probably hinges on the management issue as well. The credit rating agencies want to know what the status is of your union contracts and if indeed the contracts are in negotiation or they have expired or are about to expire. They want to know to what extent have you built increases into the budget projections for the next year, etc.

Alderman Shea stated you were talking about major fluctuations within the rainy day fund. Is there a distinction between major and minor fluctuations.

Mr. Tortora replied there might be. My concern is, and I have been working with the City for about eight years, that a departure from the City's policies, declared policies on how they will use that rainy day fund will raise a red flag. If we were in a booming economy and there wasn't an existing problem with the schools as there is here, that in and of itself might not be a problem but coupled with the erratic and volatile economy that we are in right now and the situation that is going on with the School District, probably what you might deem to be a diminished hit to the reserve fund, that gives them a reason to consider a downgrade.

Alderman Shea stated let's assume that some people consider a major hit on the stabilization fund \$2 million. Would a minor hit be like \$250,000? Would that have the same type of...

Mr. Tortora interjected obviously the consequences wouldn't be as dire and as immediate and as likely but any departure from your standard practice that the rating agencies know, recognize and have rewarded you for because that Double A II you have earned that over the years and you have been able to keep it while a lot of other jurisdictions in New England and New Hampshire have seen their credit deteriorate over the years. Manchester has done a fabulous job of maintaining that credit. Any departure from your policy and how you use that rainy day fund would send out a red flag. Would a \$50,000...perhaps not but it is difficult to quantify.

Alderman Shea stated at one time our stabilization fund was about 5%. Now I am not sure but I thought we were adding to it and I thought at one time we were up to possibly 9%. I could be wrong but I am just saying. Is there a particular logic in terms of 5% to 9%? I realize we could go to 11% or we could go to 15% if we wanted to do that but does there come a point where it is kind of illogical for the governing board to say look it is great to put an 11% tax rate on the taxpayers because obviously we come from a "rich community", which we don't yet we keep adding to a rainy day or stabilization fund that we just keep adding to because some day it may rain and one of the Alderman said we have a monsoon right now. In other words, where do you reach the logical point where you say in essence maybe Moody or Finch or the others are going to say you are going overboard with this? Is there such a point?

Mr. Tortora replied if you think about, what the credit rating agencies look for is contrary to what you might want to do and what your taxpayers might want you to

do. The credit rating agencies would like to see you put in...rather than it being \$9 million, they would smile if it were \$18 million. Almost as important as the dollar amount that is in the fund is the policy that is attached to the fund on how you use the money and when you use the money. The City has a declared policy on how they would use that rainy day fund money. A departure from that policy is the trigger. That is what would trigger concern. I don't know if that answers your question.

Alderman Shea stated my other question would be logically is it better to cut the budget or to take from the stabilization fund.

Mr. Tortora replied that is a policy question and a tough one to ask. From a credit standpoint...it is really a policy issue and a tough question for me to answer.

Mayor Baines stated you really don't need to decide City policy.

Alderman DeVries stated most of my questions have already been covered by the Aldermen on each side of me. The one thing I think...you talked about the departure from policy in reference to the rainy day fund and how and when it is used is very important as to how favorably our credit rating will be reflected. Are you saying that if we depart from the normal policy and how we fund the rainy day fund, say if we take a year off from placing new funds in that is that equally important to making raids on the fund?

Mr. Tortora replied I don't think it is equally important. It is important, but it is not equally important. They expect that if there are surplus monies...depending on how the fund is structured if there are surplus monies and the practice and policy has been to put those surplus monies in the fund and you do not, that is a problem but if the surplus monies don't exist because of tough economic times and there is a Welfare problem, that isn't as big an issue. There is a concern, but it is not as big an issue.

Alderman Wihby stated you gave two different responses that I think contradicted each other. You told Alderman Smith that maybe a double digit increase could be looked on favorably but you told Alderman Shea that if you deviate from what your plan was and our plan was to use...only if you were decreasing revenues and you didn't get them in, it was a set amount, it was a set amount from the beginning. We haven't reached it yet but it is a set amount and we are hoping that this year will be the last year we would have to put anything into it but what is your rationale that you say double digit could help but at the same time you fund that double digit by taking the money out of the rainy day fund? Obviously they are going to look at the rainy day fund being depleted. I don't know how that could be a good thing.

Mr. Tortora replied if I understood the question correctly, I understood the question to be what if the City of Manchester had to have a double-digit tax increase.

Alderman Wihby responded but that is based on depleting the fund to do it.

Mr. Tortora replied I looked at it as two separate things. If on its own the City had to have a double digit tax increase to meet all of its budgetary needs, that in and of itself is not a problem because it shows your willingness to raise taxes to meet your budgetary needs.

Alderman Wihby stated right but if you are not raising taxes and you are going to meet that double-digit increase by depleting the fund...

Mr. Tortora replied that is a problem.

Alderman Osborne stated as it stands now the City is at a Double A II correct.

Mr. Tortora replied that is correct.

Alderman Osborne asked say it falls back to a Double A III. What does it take to get back up to a Double A II?

Mr. Tortora answered it is much easier and much quicker going downhill than it is going uphill because the credit agencies, as we all know when you think of what has been happening to them on the corporate side say with Enron or say five years ago what happened to them with Orange County, California where they were caught flat footed in this Double A credit and overnight it went into the "junk bond" status, once your credit rating starts to go down it is markedly more difficult to turn it around and go back in the other direction. It would take years.

Alderman Osborne asked like how many years.

Mr. Tortora answered it would depend on how strong other factors are so the economy stabilizes, the school district issue goes away...it would be a combination of a number of issues. It could come back in two or three years but it wouldn't come back the next year. It wouldn't just swing right back. What a credit rating is is the credit rating agency's independent assessment not just of conditions as they presently exist, but how it appears they will look for the foreseeable future because they base the credit rating on trends, three to five year trends, because they attach a credit rating to a bond issue that might be out for 20 or 30 years. They would look rather foolish if they had a credit rating today that

they affirmed and then immediately changed it next year and yo-yoed it back up the following year. They move pretty slowly.

Alderman Osborne asked so as it stands now you don't feel that a couple of million dollars...that is it not raining hard enough to do this.

Mr. Tortora answered my responsibility with the City is to talk about its credit rating and what could negatively impact it. A \$2 million withdrawal from that account would have an immediate...as quickly as the credit rating agencies look at you, the downgrade could occur and I am pretty confident of that.

Alderman Osborne asked and that is to a Double A III.

Mr. Tortora answered or lower.

Mayor Baines stated there is a possibility that it wouldn't happen. We talked on Friday and you said it is possible that wouldn't happen.

Mr. Tortora replied there is always a possibility but it is the combination...I have said before this group before that no one factor unless it is an extreme factor, should hit your credit rating because the rating agencies could factor in variables like a soft economy or the loss of a major taxpayer, etc. What is happening right now in Manchester is there are a number of issues. The economy that is a problem nationally or regionally certainly and the school problem with a potential \$3 million deficit. That compounded with a \$2 million withdrawal from the reserve fund would probably be enough, I suspect. Perhaps not. I mean if you get an analyst on a day where maybe he or she isn't particularly focused but they keep a real close eye on Manchester because you are such a highly rated credit. You are probably one of the preeminent credits in New England and you are certainly one of the more active issuers as of late.

Alderman Lopez asked could you go back to the base points that you spoke of when somebody asked you about \$250,000 and could you address that in the area that if the priorities...if we did not take any money out and we had union problems and school problems and fire and police problems and it was better to take some money out of the rainy day fund as good management to solve these problems as a tool and also what your experience is as a financial individual...I think the question is that it could affect us or maybe it wouldn't because after September 11 all of the other cities...maybe you can cite where this has happened. Have you had any experience where this had happened in other cities that would have taken money out of their stabilization account and their rating changed and could you cite some?

Mr. Tortora answered sure. We have been on a defensive posture with many of our clients the last several months where the rating agencies have put jurisdictions on credit watch negative. For example, the Airport here in Manchester, following September 11 Standard & Poore's put all of their airport ratings on credit watch negative. Over time, a number of jurisdictions, a number of airports came off credit watch and a number of them were downgraded. Manchester Airport happens to be the first airport since September 11 that has actually been upgraded by one of the credit rating agencies because of the stellar performance that we have seen in Manchester at the airport.

Alderman Lopez replied the Airport is a different category.

Mr. Tortora stated you are right. Rockland County, New York, a long-standing client of ours, with a population of about \$250,000 that had a credit rating of Double A III, we just spent time with the credit rating agencies about six weeks ago and the big issue that the credit rating agencies are focusing on with almost all of our clients is flexibility and flexibility has to do with the amount of reserve that you have that you could tap into to weather a downturn in economic times so when revenues come in short and it mostly has to do with jurisdictions that are overly dependent on sales tax revenues because those numbers have come down significantly. Rockland County, NY was downgraded from a Double A III to an A I and that is going to negatively impact them. I just flew in this morning from Rochester, NY. Monroe County was a Double A II credit and they have gotten downgraded twice in the last three or four months in no small part due to the diminution of their fund balances. If I can contrast that with one, Hingham, MA is a client that we work with. Hingham was recently upgraded from a Double A III to a Triple A and those, again, are very few and far between and what they pointed to among the fundamental strengths of the management team and the economic and demographic factors and the relatively low debt level, they pointed to the extraordinary amount of flexibility that they had by virtue of fund balances that probably are equal to about 20%. They have a very high fund balance.

Alderman Lopez stated I would like to give the lawyer a chance to answer my question.

Mr. Rick Manley stated I am with Ropes & Gray in Boston.

Alderman Lopez stated in our agreement on bonds, how are they. Are they all fixed bonds or is there any call provisions in any of our agreements and is our ordinance that establishes the stabilization account in the agreement?

Mr. Manley replied the answer to your first question is that most of the bonds that the City sells now a days do have call provisions in them. Typically the standard

market call is 10 years so the City has to live with them for a 10-year period before they can actually refund them and take them out and perhaps swap them for more advantageous rates. That is the way most of them are drafted.

Alderman Lopez asked could you explain the call provision again.

Mr. Manley answered unlike a house mortgage that can generally be refinanced at any time, the bond holders buying long-term bonds are interested in making a bid for getting an interest rate for a particular period of time and they factor that into the bid that they may give the City with regard to the interest rate that the City needs to pay on the bonds. They want some assurances. They want to understand that if they agree to an interest rate fixed at a particular level that they will get it for at least a particular period of time. Then to the extent that the City wishes to take the bonds out sooner, for example with 20-year bonds quite often they get refinanced after year 10 or 12 or something like that and the City or any issuer generally will pay a bit of a premium. That is if you want to refinance to swap for a lower interest rate, within limits you can do that as long as they have been outstanding long enough but quite often there is a little bit of a price that you pay – a 1% or 2% premium depending on where you are vis a vie the maturity of the bonds.

Alderman Lopez stated the other question is in reference to our ordinance and all of the agreements that you draft up when the underwriter comes to you for an agreement or legal document, do you cite in that legal document our ordinance on the stabilization account.

Mr. Manley replied no. That is sort of what is assumed in the discussion of credit in the City's management strengths and so forth that is looked at by the rating agencies but that is not something that is part of the legal documentation underlying the bonds.

Alderman Lopez stated so that is a plus for us then.

Mr. Manley replied it is certainly not typical that anything like that is done for a general obligation credit.

Alderman Lopez responded I realize that but would you agree that if it was written in an agreement that would be an understandable thing as a management tool that we put in that agreement for the bond and, therefore, the underwriters look at that and don't see any type of agreement with the ordinance in it. It is not a major thing for that particular bond.

Mr. Manley stated it is not as if you are impairing some third party's contract or anything like that.

Alderman Smith asked, Kevin, we went into bond rating about 10 years ago and I brought this up before but before the rainy day fund came into existence what was our bond rating.

Mr. Clougherty answered without researching, I don't know. I know it was lower than what we have now. Rick, do you know?

Mr. Tortora stated the rating process has changed within the last 10 years. They didn't use to have the modifiers that they do now so right now if you are with Moody's within the A category you can be AI, AII and AIII. They didn't have those modifiers before so it is pretty safe to assume that before you were Double A you were Single A and there was no modifier.

Alderman Smith responded so really there wasn't much of a change before the rainy day fund or when we had no money in the rainy day fund.

Mr. Tortora replied I would suspect that you wouldn't have gotten to the Double A level without it. Without that policy and without a significant amount of money there, I don't think you would have approached a Double A credit rating.

Alderman Smith responded we are interested in the rainy day fund for we will say \$2 million. How would that affect our rating from Double A to Triple A, the \$2 million? We are helping out probably the different department heads and schools and fire and so forth by doing it and we are also saving the taxpayers approximately 2%.

Mr. Tortora replied if indeed there was a \$2 million withdrawal from the rainy day fund for the purpose that I understand it is intended I think there is a very good likelihood that you would be downgraded the next time you were before the credit rating agencies coupled with the other circumstances as they presently exist.

Alderman Garrity stated earlier you talked about the \$2.7 million school deficit. Now if that \$2.7 million isn't paid back in a timely fashion what effect will that have on our bond rating?

Mr. Tortora replied that, too, will have a negative impact on your bond rating. What the rating agencies look at...they understand that jurisdictions are under financial stress from time to time. That is expected. They want to see how you deal with it. If you have an articulated policy in effect that tells them how you plan on addressing a deficit say in the school fund and they see that you are

complying with that policy, you get high grades for that. That you have already got a lot of good will with the credit rating agencies by virtue of the fact that it is a very proactive process that has been going on long before I got here between the City and the credit rating agencies...I know you have a policy in effect to repay that and if indeed there were monies left over at the end of the fiscal year and they were not applied as your policy dictates they be applied, that would be a big problem.

Alderman Garrity asked what kind of impact would that have on the bond rating. Would it go from Double A II to Double A III?

Mr. Tortora answered again we can't say. They don't like to make movement in the credit rating more than a step at a time so you are at Double A II and generally they wouldn't want to move it any lower than a Double A I immediately because that would imply that they missed something or why is this dropping two steps at once? That having been said, you are at such a high credit rating already and there are a couple of circumstances that already exist here in Manchester that they might say well if it was only this maybe we would reduce you to a Double A III but it is this and this coupled with the weak economy so just to be safe we are going to bring you down to the AI level. That is something that we don't want to happen because there are definite financial implications that could last for many, many years to come. Once you sell those bonds you are locked into those rates as Rick said for at least 10 years and if you sell bonds after you have a credit downgrade, even if get an upgrade a year later or two years later, which isn't typically likely, you are still stuck with those higher rate bonds because you sold them with the lower credit rating.

Alderman Garrity asked if that \$2.7 million is not paid with the plan that we had set-up will it affect our bond rating.

Mr. Tortora answered yes.

Mayor Baines asked you can say that definitely like that. How can you say that? You haven't answered anything definitely like that.

Mr. Tortora replied he asked will it affect your credit rating and it could affect it with a credit watch negative. They might put you on negative credit watch and then see what happens over time. Do other circumstances start to shore up? It would affect your credit rating. It would be a contributing factor to a downgrade.

Mayor Baines asked did you say bond rating.

Mr. Tortora answered bond rating and credit rating is the same.

Mayor Baines stated you are saying you are 100% sure that our bond rating would be changed.

Mr. Tortora replied I can't say with certainty...again because I want to be consistent, no one incident should get you a downgrade.

Mayor Baines stated the only reason I am pushing you on that is because we had a long conversation on Friday and you had a different answer.

Mr. Tortora replied I made that point. No one event should give you a downgrade but we have a couple of things going on in Manchester that we haven't had in the past and again the school issue...that is a big one and the economy is another big one and now there is the design-build finance in conjunction with the school project so you have some significant debt that might be issued in the near future so that affects that component. Affecting the finance component you have this deficit in the school fund and if, indeed, we also had a withdrawal from the rainy day fund that would impact on the finance component and on the management component because your management practices are such to say that you won't do that.

Alderman Garrity stated let's say that potentially the \$2.7 million doesn't get paid back in a timely fashion and we take \$2 million out of the account. What kind of effect will that have?

Mr. Tortora replied again I think that based on the preponderance of all of the things that are going on in Manchester, etc. I think that you are very likely going to get downgraded.

Alderman Garrity asked how much.

Mr. Tortora answered you are certainly going to be...you would be fortunate I suspect if you were only downgraded to a Double A III. The mood of the credit rating agencies is to downgrade. They are downgrading everyone. It is tough time.

Alderman Thibault stated you just answered a lot of my questions but there is one more thing. You talked about Rockland County in New York and they were downgraded to what, you said?

Mr. Tortora replied they were a Double A III and they got downgraded to a Single AI.

Alderman Thibault asked so what impact percentage wise would that have on the next bond that they go out for approximately.

Mr. Tortora answered I would think that going from a...it is the same two things. The likelihood that they will need bond insurance will increase. It is very likely that they will have to buy bond insurance and that might cost $\frac{1}{4}$ of a percentage point on the total debt service for the issue. In terms of the impact on the interest rate, under present market conditions when rates are very low and they certainly are, it might be worth 10 basis points or maybe 15 basis points with there being 100 basis points in 1%. If we were in an interest rate environment where 20-year paper was 6% let's say, then the difference between the different credit ratings is significant. Moving from a Double A III to a Single A1 then might be worth 25 or 30 basis points. The reason why it is not such a big hit to the rate is because rates are so low already that the credit distinctions don't cost as much.

Alderman Thibault asked but that ends up being almost $\frac{1}{2}\%$ if I listen to what you are saying and $\frac{1}{2}\%$ is quite a bit on a 20-year bond.

Mr. Tortora answered yes. The insurance premium is only paid once up front but the interest rate you are paying for the life of the issue.

Alderman Gatsas asked for a municipality of our size, what should that rainy day account look like. How many millions should be in there?

Mr. Tortora answered it depends on what it is used for. The credit rating agencies like to see...I talked about flexibility before. They like to see jurisdictions have a certain percentage of their budget in unencumbered or just in reserve funds.

Alderman Gatsas asked what percentage is that.

Mr. Tortora answered it depends on credit quality. You typically want it...for a good credit quality in the higher end of the A's you certainly want to be at or above 10% with your reserve funds. There are jurisdictions in the Double AA category that have in excess of 15% and 20%. That is with all of your funds combined.

Mayor Baines replied Mr. Clougherty has told us 5%.

Mr. Tortora responded 5% is policy. It is two different things because there is policy for like governmental purposes and 5% might be the prudent amount to have in amounts but the credit rating agencies would like to see you have as much reserves as possible so there is a distinction there.

Alderman Gatsas asked so right now we are at about 10%.

Mr. Tortora answered yes right about 10%.

Alderman Gatsas asked if I were to tell you that we were going to have a revenue shortfall at possibly \$700,000 and if we were looking to tap that rainy day fund for \$2 million, that would be a 30% decrease in the rainy day fund. That certainly with all of the testimony that I have heard you give, would look at possibly a single grade or a double grade drop because if revenues are decreasing and somebody looked at our revenue forecast and they were an increase from the previous year there could be some problem.

Mr. Tortora answered correct.

Alderman Gatsas asked if that \$2.7 million that Alderman Garrity alluded to if the State of New Hampshire came back or the Department of Revenue and said that must be brought forward that could even have a more severe impact.

Mr. Tortora answered certainly.

Alderman Gatsas asked does the rainy day fund include schools or not include schools.

Mr. Tortora answered I believe it does.

Mayor Baines stated that is where the difference was. Your 5% was including schools right Kevin?

Mr. Clougherty replied yes.

Alderman Gatsas asked so right now if that number were at 10% we are only at 5% so we would risk falling below that 5% if we were to do that – drastically reduce that because of the \$2.7 million coming from the school district.

Mr. Tortora answered that is a very low number for a Double A credit.

Alderman Gatsas stated tell me with your professional opinion how many times do you see municipalities taking one-time funds and reducing costs. What normally precipitates in the rate drop in bonds?

Mr. Tortora replied I am not quite sure I understand your question.

Alderman Gatsas asked when you see a municipality using one-time funds...

Mr. Tortora interjected one shot revenues we call them.

Alderman Gatsas stated okay one shot revenues to reduce budgets, what normally do you see happening in the future or what do the credit rating agencies do.

Mr. Tortora replied the credit rating agencies have this very, very strong aversion to the use of one shots because they are not something that you can count on. If indeed there is use of a one shot revenue, they would like it to be used only for a one time expenditure or one time cost like you were building a stadium. Something where you have a one time cost using a one-time revenue to spend on that cost.

Alderman Gatsas responded so what I am hearing you say is taking one shot money...

Mr. Tortora interjected routine reliance on one shots is a very big no-no to the credit rating agencies.

Alderman Gatsas asked and taking one shot monies to reduce the amount of the tax rate is even viewed...

Mr. Tortora interjected again because I don't want to lose the context of what we are talking about, what I am concerned about is the departure from the policy. There has been this policy and departing from that policy is the concern. If the policy had always been this is exactly what the money is used for, it wouldn't be a departure from the policy and it wouldn't be as big an issue but that is not what the policy is for this fund.

Alderman Gatsas asked so seeing a reduction of \$700,000 in the rainy day fund because of a shortfall in revenues and then a one time shot of \$2 million could put the City's bond rating in jeopardy.

Mr. Tortora answered it certainly could. If I can dissect your statement for a moment, the use of the rainy day fund for that \$700,000 shortfall, that in and of itself isn't problematic because that indeed is what the fund is for but the secondary hit of \$2 million would be a problem.

Mayor Baines stated I have a couple of questions before I continue with the Aldermen. I think it is great to have these conversations because it enlightens all of us. This rainy day fund has been discussed for a long time. Are there municipalities that you work with that establish rainy day funds for different reasons?

Mr. Tortora replied certainly.

Mayor Baines asked could you give us some examples of that.

Mr. Tortora answered they might establish a tax stabilization fund so in times when there are strong economic times and revenues come in beyond projections they might put in a percentage of those monies to a tax stabilization fund and a percentage of those monies into a rainy day fund. Tax stabilization will come into play in the event that the tax increase in the ensuing year is going to be in excess of 5%. They will buy down the tax increase with monies in the tax stabilization fund. We see that frequently.

Mayor Baines replied that is what a number of communities are doing right now as I understand. Mr. Clougherty, have you ever advised the Board of Mayor and Aldermen to establish a tax stabilization fund?

Mr. Clougherty responded no we haven't, Mayor, and that is mainly because of our tax structure versus some of the other places where these tax structures are like Massachusetts and Connecticut where they have sales taxes and other taxes that are working. We are primarily reliant on the property taxes and our discussions that we have had with the credit rating agencies were that we should be looking for a revenue stabilization fund.

Mayor Baines replied except that all communities in all states deal with recession and certainly it is something that the Board might look at in the future as we are closely approaching the...

Mr. Tortora interjected that is an important distinction though because most of the jurisdictions we work with have large sales tax revenue.

Mayor Baines replied we understand that and there has been a lot of publicity about that recently as well.

Alderman Lopez stated I am happy with a lot of the answers we have got which cleared up the fact that the ordinance is not in the legal document, etc. I did have one question here from a friend of mine. He asked how many years has the City been Double A II. How many years? Kevin do you recall?

Mr. Clougherty answered three or four I think.

Mr. Tortora replied I want to say more than that. Maybe closer to six or so. That is something we could look into and get back to you definitively.

Alderman Gatsas stated it is seven years.

Alderman Lopez asked before we had a rainy day fund what was our rating. Does anybody know?

Mayor Baines replied I think they said that there was a different rating system in place at that time. That is what I recall.

Mr. Tortora stated as I said earlier you couldn't say like the rainy day fund existed and it is a Double A. The modifiers in the Moody system have only been in place for probably the last five years. It is difficult to say that that in and of itself gave you the upgrade.

Alderman Lopez stated I am going to end this by saying that I appreciate a lot of the answers you gave. I guess it boils down to, because neither one of you gentlemen, with all due respect, can predict the future because of the many economic situations that are happening around the country and especially around our state that our rating would go down. That would be up to the people who are going to bond us. Everybody can speculate but until the time you go and get the money and with your experience you might be 90% right or 99% right but I am sure that if we don't get the money and we manage it ourselves here with the taxes and the schools, the police, fire and the taxpayers and we have people start moving out of this City I think that is going to be a tremendous thing for you as a financial analyst to say gee what did it hurt to take a little money out or not put any in this year. I think you did make a statement that it wouldn't hurt much if we didn't put anything in this year. Is that correct?

Mr. Tortora replied if indeed there were no monies...pursuant to the formula that has you fund this reserve fund, if there were no monies available and no monies went in that in and of itself wouldn't be a big problem.

Alderman Lopez asked let's say that there was some money and we didn't put any in.

Mr. Tortora answered that would be a departure from a management practice and that would be a problem.

Alderman Lopez responded but again that is one piece of twenty pieces of pie that the person issuing the bond is going to look at with what the situation is in the country and in Manchester, NH as to whether that is important or not.

Mr. Tortora replied it is one of the things that the credit rating agencies would look at.

Mr. Clougherty stated I would like to clarify one point for Alderman Lopez because he asked the question the other night about legal documents. The requirement for us to disclose the rainy day fund is with the official statement and with our comprehensive annual financial report, which as you know are parts of the documents that are included and I would just like to make that point lest anybody leave...

Mr. Tortora interjected we include as an appendix to the official statement for a bond offering the audited financial...

Alderman Lopez interjected excuse me Mr. Manley told me not.

Mr. Manley stated the point that Kevin is making is that we have disclosed to the marketplace that we indeed have this policy in place and that as such the folks buying our bond and the folks rating the bonds of the City take that as face value and get comfort from that. However, that is not part of the contract, as such, the legal contract just to be clear as far as the City's obligations to repay the bonds. While they are distinct they are actually sort of part and parcel of the same thing. In other words, we are telling people what kind of a policy there is and people are taking some comfort from that and as such they are recognizing that we are...we are realizing some benefits of this comfort in the rates that they give us and the rating that they assign to us. While it is certainly true that you can look through all of the bond documents, that is the legal forms and so forth and not see that policy written into those forms, they certainly are sold together in a way if you will and so I think they do go together although it would be unfair to say that they are part of the contract as such that we issue to the bond holders when we sell the bonds.

Alderman Lopez stated I am told that when a lawyer does the agreement on the bond that it is important that the agreement on the ordinance in this particular case...it is more important that that be in the written agreement if you have any doubts whatsoever as far as the management aspects of the City and if it is not in there it is less important. How would you say that if you follow my question? I know what you are saying. You know we have a policy but the argument is that the people loaning the bond, it is more important that if they are in doubt about something that the ordinance be stipulated in the agreement on issuing the bond versus not being in there.

Mr. Manley replied I would agree that it is commonly done, for example, when we sell bonds for the airport as revenue bonds we put in all kinds of things like what kind of management the airport will have and so forth. In the revenue bond

context that is absolutely what is done and rates will be set at particular levels to maintain coverage and things like that. However, the City as a GO issuer or a general obligation issuer, is selling what is called a statutory pledge. That is RSA 33 sets out a scheme by which the City may pledge its full faith in credit and other cities and towns of course in New Hampshire can do this. It is sold in a completely different way than a revenue bond in that essentially what you get to do as a taxing jurisdiction is to say we pledge our full faith in credit. We will pay these back and that is really kind of the nice thing about municipal finance for a city or town is that it is rather straightforward. You say here we are. Here is what our credit profile looks like – our demographics and so forth and we will promise to pay you back. The rating agencies look at this and say all right as a whole here is what the rating is and here you go. These are just generally done in a very, very different way so I think actually it would raise some doubts about what we were about in the City if we issued bonds that look a lot like a revenue bond when in fact they were a pledge of full faith and credit.

Alderman Wihby stated we put the revenue stabilization or the rainy day fund in place because we wanted to maintain our bond ratings. One of the things you talked about was the tax stabilization act where you said half goes to taxes and half goes to the rainy day fund. We basically do that now because we only take half of the revenue and use it for the rainy day fund. The other half goes to the fund balance, which reduces taxes the following year. Basically we do the same thing now. We set-up a maximum of 5% and after it reached 5% we weren't going to touch it again. We have been trying to do that for I don't know how many years we have had this but we are still not quite there. Also when we have done our budget this Board has been very good in not just saying well we have a revenue stabilization act or rainy day fund but we want to get as close as we can to make sure that our revenues meet and this is the first year I can think of where we are looking to take \$700,000 from that fund. The second issue that we have and that is one strike I guess against us, maybe not as much but it adds up with all of the different things you said as far as going out to bonding and everything else. The second strike is going to be that if the agreement that we have with the school deficit and after this year hopefully it is \$2.1 million but if they don't come through with that after so many years that is funded by the City, which is going to come out of this fund also because it is revenue. That is going to be strike two. Now if we take this out of there or we take any amount out of there and change from our policy we already have three strikes against us. I guess my question, your Honor is when you put the budget together I don't think anybody, yourself included, wanted to come up with a 12% and I am sure that this is one of the things that you looked at when you were putting the budget together. I am sure it was recommended that it not be done and I am sure you decided against it and didn't do it. At this time, I imagine your feeling is the same that you are opposed

to taking this money out because otherwise you would have done it when you did your budget?

Mayor Baines replied absolutely and I would veto any effort to do that.

Alderman Wihby made a motion to move the question.

Mayor Baines stated I have one more question before we do that. Since we are including schools as part of the percentage, if the schools have a revenue shortfall would they have automatic access to the rainy day fund?

Mr. Clougherty replied what happens on the school side is they do their own independent calculation by their auditor. If they still have a deficit when we take a look at the City side with the credit rating agencies, they are going to consider that as well. It is not like you take it out to offset. What it is is kind of an offset.

Mayor Baines responded but they could right.

Mr. Clougherty replied no. What it is is say school has a deficit of \$3 million...

Mayor Baines interjected we are talking about revenues.

Mr. Clougherty responded right. Say you have a deficit of \$3 million as a result of revenues. They are going to take a look at the overall deficit. Not for that year but overall where the schools are and the schools are going to get audited and they are going to come in with their position. When we are doing our calculations on the City side, that is a separate calculation and we are trying to make sure that we are maintaining on our side an amount equal to cover the schools. It is a separate calculation.

Alderman Lopez moved that we take \$1 million out of the rainy day fund.
Alderman Smith duly seconded the motion.

Alderman Wihby requested a roll call vote. Aldermen Wihby, Gatsas, Guinta, Sysyn, Pinard, O'Neil, Shea, DeVries, Garrity, and Thibault voted nay. Aldermen Osborne, Lopez, Smith and Forest voted yea. The motion failed.

Mayor Baines stated I would like to pass something out to the Board at this time because there have been a lot of discussions about the budget and I wanted to try to establish some sort of an indicator where I am at in terms of my willingness not to veto or to veto. The document that is being passed around basically would establish those parameters that I feel comfortable to the point that I would not veto anything that fell within these parameters right now. This budget would call for a

2.5% cut in various departments unless otherwise indicated. Excluded from the 2.5% cut would be the Economic Development Office, the Mayor's Office, Youth Services, Elderly Services and Welfare simply because of the size of the departments and the impact that I don't feel would be justified in these small departments. I am willing to support at this time a 1% budget cut in Police and Fire. Again, I would exercise a veto of any percentage in excess of that. I am also in favor of looking at the savings of \$870,000 from a combination of consolidation or hiring freeze on all middle and upper management positions. I did pass out to the Aldermen tonight all of the positions that the Finance Office identified as being positions that have some association with financial operations of the City that would be part of any review that the Aldermen would consider going forward and also the sheet that was part of the department presentation from Finance regarding the number of positions that they would need to add to do that. I would urge the Board to be very cautious in this area. It is very difficult for something like that to be part of the budget process. I put that out for consideration and would welcome any comments from members of the Board.

Alderman O'Neil asked can I get a clarification. In the exceptions you mention 1% for Police and Fire. Could you just review those?

Mayor Baines answered the School District would remain the same as well. It is an approximately 8.14% tax increase but I want to remind the Aldermen and the public once again that the budget does not set the tax rate. The tax rate will be set in the fall when we have a better handle on revenue trends over the first quarter as we again look at the tax base and other indicators that have a financial impact on the budget and it will not take place until the fall.

Alderman O'Neil asked what departments are exempted.

Mayor Baines answered on the far right side we have exempted the Economic Development Office, the Office of Mayor, the Office of Youth Services, the Tax Office, which I missed telling you the first time around, the School District, and Welfare and a 1% cut for Police and Fire.

Alderman Wihby asked could you explain what that other stuff means there.

Mayor Baines answered the situation in the Health Department is that Mr. Rusczyk pointed out and Wayne do you want to go through that in terms of the accounting. Is that the accounting?

Alderman Wihby asked is that just a wash.

Mayor Baines answered yes. If you remember Mr. Rusczek pointed out that it was just an accounting issue that made it very difficult for him to fund those positions so that corrects that. Am I correct, Mr. Robinson?

Alderman Wihby asked why did you add that other stuff up top for the health insurance. What is that?

Mayor Baines answered because of the number that was given to us by the Human Resources Director today indicated that the health insurance should be approximately \$300,000 beyond what we had originally budgeted. Would you explain that, Ms. Lamberton?

Ms. Lamberton replied actually it should probably be a little bit more than that but at this point in time as you know Anthem has said that their rates will be 22.7% or 22.6% and the budget only provided for 18%.

Mayor Baines stated we added the numbers that you gave me today - \$375,590.

Ms. Lamberton replied that is right.

Mayor Baines stated there are some potential savings in that area that could be fine-tuned as well. It may not be that high as you know because we are in negotiations. That number could come down actually.

Alderman Wihby stated I don't know if we really need that health insurance or not but what about the \$200,000 for parking revenue. I know that we talked about adding revenue and we were told not to because we are already \$1 million higher and also the \$750,000 from the sale of the garage. We haven't decided on selling the garage and we don't have a potential buyer so how can you just add that to a budget? That is just inflating revenues.

Mayor Baines replied well it is a potential and if you want to explain the parking situation Wayne.

Mr. Robinson stated based on conversation with the Traffic Department, they have additional permits that they will have going on the books in July and that is where the \$200,000...

Mayor Baines interjected you know the sale of the garage is obviously something subject to debate and again that is a number that could fluctuate whether in fact we do that or not.

Alderman Wihby stated in the past when we have just tried to add stuff even though we tried to get some sort of a vote we were told not to do it unless there was a vote pending or an actual vote taken. How does Finance feel about that?

Mr. Clougherty replied we really haven't spoken to the Mayor about those two items in any detail. Our approach, as you know, is to take a look at the total bottom line. We think it is very dangerous for you to go in and kind of cherry pick the good revenues that you think are going to grow and build them up and ignore the bottom line picture. It is important to take a look at the growth bottom line. Our projections to the Board and to the Mayor have been that it should be about 1% over your actual collections for this year. This obviously would be beyond that limit and you would be running a risk I think to go forward with those dollars. In the past we have discouraged those types of things. Some of the members of this Board may recall eight or so years ago when the Board put in \$500,000 worth of things that they were going to come up with for revenues and then never delivered on them. We were lucky that year that we were in a good growth period but that is not the time to be taking that risk.

Mayor Baines responded that decision will be made in November or October when we set the tax rate and that will be a decided issue and it either happens or it doesn't happen. We are not setting the tax rate tonight.

Mr. Clougherty stated if it is not in there, DRA probably would not allow us to include that.

Mayor Baines replied I understand that.

Alderman Wihby asked if you took that item out of there, that \$750,000 and \$200,000 or roughly \$1 million, does that make your budget...I think \$1 million is .8%...

Mayor Baines interjected I think it is about \$.19 cents.

Alderman Wihby asked so it would be 8.9% from 8.1%.

Mayor Baines answered right. Again, I have sat through a lot of revenue projections on this Board of Mayor and Aldermen that sometimes surprise me at the end of the budget process too.

Alderman Thibault stated excluding the departments that you talked about – the 1% for Fire, Police and School, it is a 2.5% cut for all other departments.

Mayor Baines replied that is correct.

Alderman Garrity stated I have two questions. You didn't put any reduction in for schools is that right?

Mayor Baines answered none.

Alderman Garrity asked on health insurance you have a number of \$375,590. At what percentage did you fund health?

Mayor Baines asked Ms. Lamberton what is the exact percentage that was recommended for health insurance.

Ms. Lamberton answered the exact percentage is 22.6% versus the 18% that was budgeted.

Mayor Baines stated I agree with the comment that Alderman Wihby made earlier. I am not sure we are going to need that. That is one of those areas where there might be some savings as we come down the wire on negotiations and also looking at trends of our actual self-insurance and what we are actually paying out in self-insurance. We pay what it costs. Again, we are monitoring those numbers. I know Mr. Clougherty has shown me some numbers related to that. That is a number that could end up being shifted around before we set the tax rate.

Alderman Garrity stated I have a number from Ms. Lamberton of \$443,743 for a 22.6% increase in benefits and you have \$375,590.

Mayor Baines replied that is the number that she gave me today.

Ms. Lamberton responded the number you got is the worst case scenario.

Alderman Garrity stated I think we should go with the worst case scenario because we don't have a union contract signed yet. I think we should go with the worst case scenario if we are really going to budget.

Ms. Lamberton replied what that means is if we go beyond our stop-loss what is our worst case. So far we haven't done that. So far this year we are in pretty good shape and it looks like we are going to stay in pretty good shape. That is always an unpredictable but so far...

Mayor Baines interjected I think it is a fairly comfortable number. How much do we have in reserves now, Mr. Clougherty?

Mr. Clougherty responded \$1,610,823.

Alderman Garrity stated but the number we got from the health insurance report was 22.6% so shouldn't we be going on that percentage.

Mayor Baines replied I am just pointing out a fact. That is what we have.

Alderman Garrity stated well we got that long report from Ms. Lamberton.

Mayor Baines replied we can debate this forever but I agree with Alderman Wihby on this and maybe that is the last time we will agree this evening but I don't think we are going to need that. I don't think that at the end of the day we will necessarily need that amount of money. I think by putting it in there...I mean if we don't sell the garage and don't do anything then those revenues are all going to be shifted around at the end of the day and before we set the tax rate in the fall that is when you deal with the actual revenues. You can pull a revenue figure out of your hat right now and put it in there. When we go to certify in the fall with a revenue, Mr. Clougherty signs it and I sign it. Am I correct?

Mr. Clougherty responded right under penalty of perjury.

Mayor Baines stated the two of us sign it and I always ask him are you sure we are telling the truth Mr. Clougherty. That is when it is set. It is not set by a vote of the Board. It is set by the Finance Officer and the Chief Executive Officer of the City signing the forms that go to the state.

Alderman Garrity stated I don't see anything in your line item for salary adjustment and previously you had something in there.

Mayor Baines replied it is there.

Alderman Garrity responded it says zero for salary adjustment.

Mayor Baines stated we backed it out into the \$870,000.

Alderman Lopez stated one of the things I would like to see in there and maybe we can do that separately later on is to give the department head the authority to go 35 hours a week with some of the employees if they want to and if we have to change the ordinance, so be it.

Mayor Baines replied yes and there are several things we are going to be doing after this in terms of working with the departments to make sure that we are guarding against any potential problem in the Welfare Department and others that I will be dealing with immediately following the adoption of this budget as well as

coming back to the Board with specific recommendations for consolidations, serious consolidations of departments within the City because we are going to look long-term in terms of getting this budget history under control in the City so I will be doing those things.

Alderman Lopez stated the other thing is I think in hearing from Bond Counsel...we have to manage, even though I wanted to get some money out of the rainy day fund, I think they will look at this as really managing the City instead of going into the rainy day fund so we don't lose our rating. We have potential revenue to come in and it is only potential revenue as previous Boards have put revenue in and this is one year that people put revenue in that is not going to come in so maybe we will be lucky next year.

Alderman Shea stated I noticed the figures were changed for the assessed valuation. Could you explain that?

Mayor Baines replied it is the same number.

Alderman Shea responded according to the number that I have it is \$5,200,000 and the valuation is \$5,180,000. As far as the utilities it is \$5,445,000 and \$5,500,000. Were these figures verified by Steve Tellier?

Mayor Baines stated these are the numbers we had in the original budget.

Mr. Robinson replied I am not sure what he is looking at so I can't comment.

Alderman Lopez moved to accept the budget and lay it over.

Deputy Clerk Johnson stated you can take that motion but what we would really want to do is get those resolutions on the floor by reading them by title only before we amend and send them off as ought to pass because you haven't technically put them on the table. Perhaps before you take a motion on the resolution we could get a motion to read the resolutions by title only and get them on the floor so you can make...you are actually trying to amend a resolution here.

Appropriating Resolutions:

“A Resolution appropriating to the Manchester School District the sum of \$121,148,267 for the Fiscal Year 2003.

“Raising Monies and Making Appropriations for the Fiscal Year 2003.”

Alderman Thibault moved to read the Appropriating Resolution by title only. Alderman Lopez duly seconded the motion. The motion carried with Alderman Gatsas being duly recorded in opposition.

Deputy Clerk Johnson stated if I understand what Alderman Lopez then wanted to do he wanted to move to amend the Resolution to the Mayor's figures that have been presented this evening and that would be done first prior to a layover.

Alderman Lopez moved to amend the second Resolution to the Mayor's figures that were presented this evening. Alderman Thibault duly seconded the motion.

Alderman Gatsas stated I think that when we enter into a budget cycle we really enter into that budget cycle effective the first day that the budget is in progress. Your Honor, when we did a budget three years ago, I talked about consolidation. I talked about looking for an administrator for health insurance and that has been a three-year cycle. I look at that really, your Honor, from guidance from somebody that is here on a daily basis versus people that are here but twice a month because as most people want to say that this isn't a business about administering services it really is. It is about how we get those services; the best services that we can get to the people of Manchester not whether they are taxpayers or not but all people. I think that really starts from a leadership position so when we start structuring budgets and we look for other revenue factors in the City and different things that we are going to do...I talked about selling parking garages two years ago your Honor. We have a revenue on this budget that we haven't even voted on because that may not be a revenue, it could be a shortfall from what some of those appraisals are and I am really offended that we take those appraisals and we met in private and we are putting a revenue to them as an asset. I thought those were confidential. Obviously they have not become confidential and they are in your budget. I look at added parking revenue. When we have a shortfall that we are going against the rainy day fund this year, I look at that shortfall and say we are increasing that parking revenue by \$200,000. I have sat patiently, your Honor, for your guidance for the better part of two months having people look at the parking agreement that we had at the civic center. Your Honor, that is your guidance because you are here on a daily basis. I haven't seen that. I haven't seen any attention to that. I haven't seen that \$371,000 that we were supposed to put in reserves. It is nowhere and it has not been talked about, your Honor. I look at this budget process as a start from Day 1 and I look for guidance from you. When you come in and talk about bag and tag maybe it should work but when we take a look at talk about parking revenues and increasing those and the sales of the garages when they have been here for three years, I know I talked about selling Water Works and everybody gives me that look but, your Honor, the Town of Hampton sold theirs and the Town of Franklin sold theirs. Nashua is now doing a review of what they should do with theirs and I hope, your Honor, as a sister community we

get that report so we can see because if there is a \$106 million transfer on Pennichuck then this City should be looking at it because you are right. We have 17 union contracts that we haven't negotiated as of yet and I don't know if we have really negotiated in good faith. I look at that, your Honor, and I look at that as your guidance. I don't know if you have been at that table or not but that is someplace you should have been. I look at this budget process and I look at those union people that are sitting out here and obviously they are here for a reason. Certainly they haven't been here through the full budget process but they are here this evening. With that, your Honor, I think we need to start looking at those consolidations. I think we need to start taking some merit with some of these ideas that the people on this Board talk about and I think we should move forward. I don't think it should just be on a whim on when we want to look at something and do it because it sounds good. Thank you.

Mayor Baines replied I appreciate your comments and I look forward to working with you to achieve our common goals. Would anyone else like to make a comment?

Alderman O'Neil stated I think this budget addresses several areas of concern that I had. It removes bag and tag although we certainly can and should do a better job in recycling. It in my opinion responsibly funds schools. It limits the reduction in public safety services to 1%. There should be no reduction in the amount of police officers on the street or the amount of firefighters on duty at any one time. We shouldn't hear any talk about closing fire stations or ladder companies. That should not happen with this 1% reduction. I guess the item that I am most interested in and you and I have had several discussions about it, your Honor, and that is the hiring freeze on all middle and upper management positions. We have had a history of concentrating on the firefighter and the fire house or the police officer that is in the cruiser or the laborer from the Highway Department that is throwing barrels or doing our paving or the nurses in our schools. I applaud you for putting the hiring freeze with regards to middle and upper management positions. We need to take a very strong look at what it costs to administer the delivery of services to the citizens of this City, not the delivery of services themselves. We probably don't have enough firefighters in the City. We probably don't have enough police officers in this City. We probably could use more Public Works people and more nurses and environmental health people. I, for one, am going to work very hard on this hiring freeze and if you think about it if you take an upper management position that might pay \$70,000 with benefits we are looking at probably \$90,000. It is not going to take long to make up that \$870,000 so maybe we can even exceed that. I think it is the right direction to go in and I want to applaud you for that.

Mayor Baines stated I want to remind people that this includes promotional positions in departments as well.

Alderman Wihby asked are we going to recess this meeting and go to the special Board meeting and then you will entertain a motion to lay this on the table.

Deputy Clerk Johnson answered yes and no. As I understand it right now there is a motion on the floor to amend the second resolution. The first resolution that was read would not change. Following that the motion would be ought to pass and layover or other amendments if the Board wanted to do that obviously. When the motion is taken as ought to pass as amended presuming that there are some amendments, at that point the Mayor could adjourn the Finance Committee, the Special Meeting of the Board could occur because we did post it and there would be a report of the Finance Committee that the Resolution as amended ought to pass and layover and that report would need to be accepted by the Board before it could be laid over. At that point, the clock would start ticking for your layover but not until that report was accepted by the Board.

Mayor Baines stated so we could deal with that actually if we wanted to tomorrow night.

Deputy Clerk Johnson replied you could deal with it tomorrow night if you would rather. We could bring the report in tomorrow night rather than tonight if the Committee so desired.

Alderman Wihby stated my concern is the extra \$1 million in revenue. We just had a presentation from the Bond Counsel and we just finished saying that we haven't tried to inflate our revenues in the past and \$750,000 for the sale of a garage when we haven't even decided if we are selling it or not...all you are going to do is force the issue to either make desperate cuts in the middle of the year to make your budget or you are just going to go ahead in November when the revenues are set and add another 2% to the tax rate. This is really a 9% increase, your Honor. Why don't we just call it what it is? Take those revenues out.

Mayor Baines replied we have the insurance thing that we both agree perhaps is not needed.

Alderman Wihby responded then let's fix it and not do the health insurance and take out the extra revenues and have it at an 8.5% increase or whatever and vote on that rather than tell people that it is 8% and then have it show up as 9% in November.

Mayor Baines stated just a clarification. The \$200,000 is actual in the parking revenues. Those are actual revenues as verified by the Traffic Department.

Alderman Wihby replied I am looking at the total number of revenues that we were told by Finance not to increase because it was already \$1 million high. That is what I am looking at – the total revenue number. We were told up until we saw your number not to increase that. Everybody has been asking the same question. Is there additional revenue that we can count on? The answer has been no, no, no. All of the sudden we get a piece of paper and we are saying it is \$1 million.

Mayor Baines stated that is up to the Board. A number of Aldermen have also weighed in on some of these issues and it is really up to the Board. As far as the garage is concerned, that is going to be up to the Board too. I think we should sell it.

Alderman Gatsas asked which one.

Mayor Baines answered I think we should sell the one connected with the Plaza. I made that clear from Day 1.

Alderman Gatsas stated obviously now that you are talking about this I assume you know what the appraisal is.

Mayor Baines replied I am not talking about appraisals. I am talking about trying to maximize a profit to get out of that situation. I am not talking about appraisals.

Alderman Gatsas stated if somebody says that it is worth \$1...

Mayor Baines interjected I assume it is worth more than \$1.

Alderman Gatsas asked if it is worth \$1 and that is what the appraisal comes in at, how do you expect to sell it for \$1.25.

Mayor Baines answered we will find out from the marketplace on that issue.

Alderman Wihby stated my comment is that we are talking an 8.5% to a 9% increase here and the taxpayer can't afford that. I have heard from a lot of constituents, especially in the North end, who said that their valuations went sky high and on top of that they are set on fixed incomes. To increase 8% or 9% we are doing an injustice to the taxpayer, your Honor and we are doing another injustice by just playing a game and adding the sale of the garage when we don't even know if we are going to sell it and just go and change the number in

November and increase it then. We are just playing that game, your Honor, and we have never played that game before.

Mayor Baines asked we haven't.

Alderman Wihby answered no we haven't. When we increased the revenues last year we had votes that were taken. We heard from Traffic and everybody else and Finance said that is what you are hearing and these are the numbers that are calculated. We have never increased a revenue where we didn't actually vote on anything yet. I don't even know what we are talking about when we are talking about the parking garages. It is in Committee. We haven't even had a discussion on this Board yet about it.

Mayor Baines stated again it is up to the Aldermen to vote. I made a recommendation and you either accept it or you don't accept it. I am trying to find some common ground here to move beyond the budget process. It is interesting to me that several fundamental things are at play here with the schools and Police and Fire and if you were to affect the kind of cuts that some people have been talking about you would truly in that case be decimating in a very significant way some of the challenges facing our school system right now. It cannot happen. The same thing with Police and Fire. I have gone to a number...we could cut it 3% or 4% but then when we have our first fire emergency or something of a very significant nature and we don't respond in time or we don't have police officers on the street I think the taxpayers of the City are saying occasionally we find ourselves in situations where we ask people who are going to have to contribute a lot more to maintain vital services that people want in this community. I am going to reiterate once again and I don't like this kind of battle because I have great respect for each and every person on this Board but the tone of some of the comments tonight. I was not here in 1999 when all of the approvals went into place to spend all of the money that came from Claremont. I know if I had been because I talked about this a long time ago, I would have advocated for half of the money to be put in the bank to be saved and spent in a way that perhaps would have guarded against the situation we are in today. We are working through some difficult times. I am not going to jeopardize the safety of this community. If other people want to cut deeper then go ahead and vote and do it but I will take the heat politically to stand up for the vital services that I believe are critical for this community and that is where I am standing.

Alderman Wihby stated I am not through yet. You are agreeing to the consolidation?

Mayor Baines replied what I am agreeing to is if you notice here it says consolidation or hiring freeze. I agreed that some consolidation has to take place

and I am willing to work with that so we need to look at a combination of some consolidation and hiring freeze of upper management.

Alderman Wihby asked so the consolidation of administration functions is not part of this.

Mayor Baines answered it says right there that we are going to look at everything.

Alderman Wihby stated I guess where I am coming from is we know when we did the consolidation numbers there was \$310,000 in schools that could be saved and they are a department and not a district anymore so why wouldn't you at least have cut the \$310,000 out of that budget, which wouldn't have affected school books and wouldn't have affected kids and wouldn't have affected anything and would have been a consolidation of administrative functions and we could have saved \$310,000.

Mayor Baines replied there is a tremendous motivation within the number that I have given the School District to do exactly that because the number that I have given to the School District does not allow it to meet the demands that they presently have and I have been through an articulation of that. Most recently they had another \$500,000 in transportation costs. The number we budgeted for insurance is off. We are not real with that number as well. They are going to have to look at doing something like that and they should do it and I will advocate for it but the number they have right now allows us to basically hopefully maintain with some good management over there what we have without taking away books and supplies and transportation and doing some of the cuts that will be absolutely necessary in the schools. That is a real number that I put in there for the School District. I made some tough decisions. They are not happy with me over there either. Maybe I am doing something right if I have people on all sides of me angry.

Alderman Garrity stated I won't accept this budget. It is an 8.14% increase, which means \$1.93 on the tax rate or \$193 to a \$100,000 home. The reason why I won't accept it is I think the revenues are inflated and I think \$10 million more for schools is too much. I think they can get a little more creative over there in how they spend their money. It is not an easy decision for me being the only Alderman out of 14 who has a child in school but I believe that a \$10 million increase is way too much. I ran for the School Board eight years ago. Their budget was \$57 million. Eight years later we are looking at \$121 million. I think it is too much and I don't think the taxpayers can afford it.

Mayor Baines replied the only thing I will correct you on is the number you are using was probably before we did all of the chargeback numbers and included all

of the numbers that are associated with the School District so that is not a real number.

Alderman Garrity responded well that is why I will oppose this budget. I think it is too much for the taxpayers after a year of revaluation and I believe the School District should do their part for the cuts.

Mayor Baines asked are there any other cuts that you would recommend.

Alderman Garrity answered I would cut the Economic Development Office 1% too.

Mayor Baines asked what about Police and Fire.

Alderman Garrity answered I am happy with Police and Fire at 1%.

Alderman Shea stated your Honor you submitted your first budget and this is your second budget so if this were not approved would we go back to your first budget.

Mayor Baines replied you could. I also have line item veto authority, which I would exercise as I have explained throughout this process.

Alderman Shea asked is this your final budget.

Mayor Baines answered what I have done here is obviously we have done a lot of compromising I believe. Perhaps not as much as other people would like but people asked me to chart out where I would go in terms of my vetoes and this is basically it. That is my response to that question.

Alderman Shea stated my point is that you are submitting this budget this evening. If nothing is done and in other words we do not pass any budget and your budget doesn't pass is this your budget. It is not the other budget that you submitted initially? This is your budget now so this would go into effect?

Mayor Baines replied no that is not the way it would happen and I will let Carol explain.

Deputy Clerk Johnson stated if for some reason the Aldermen did not come up with a different budget and did not amend the original budget, which would be...at this point there is a motion on the floor to amend it to the numbers that the Mayor has presented to you this evening, you would revert back to the Mayor's original numbers.

Alderman Lopez stated to answer Alderman Garrity's question about the School District and that he thinks they should be cut, things have changed over a number of years. Even with this \$121 million they have a lot of work to do. They have to find over \$3 million in that \$121 million. There have been a lot of requests for \$124 million and their original request was for \$128 million. I think responsibility to the schools is important. Another factor that is down the line is the new Federal law that was just instituted called Leave No Child Behind. I am not an expert in it but if your kid is not getting the right education you have the right to move him to another school and we are going to have to pay the transportation. I believe with the cuts that they have to make I would not want to be on that side of the fence to try to find \$3 million in this \$121 million that they have to do. Would I like to see a 5% or 6%, absolutely and I think three of four Aldermen here would have taken the money out of the rainy day fund if we would have had the votes and that is the process. We lost. To go deeper in cuts would hurt the workforce in this City, the people who are teaching our students. If you were here on Memorial Day and saw the West High chorus group or have been at Bakersville School and seen the deplorable conditions...

Alderman Garrity interjected I think I have been there more than you have, Alderman.

Alderman Lopez stated since you said you have been there more than I have then you know what the situation is and we went into a room today that you can hardly walk in. I will tell you that there are deplorable conditions in our schools and there has been fault in the past with the School administration. I will be the first and Alderman Wihby has brought up many occasions but we have a new regime over there trying to cooperate and trying to do the right thing. Yesterday is gone. Tomorrow we don't even know what is going to happen. Today is the day that we move forward. It might not be the best situation in the world. I will say again you didn't want to take any money out of the rainy day fund to help this situation and we have had experts here who convinced the Board to do a management type...that is what we are doing. We are managing the resources that we have or the potential of resources and if we can do the cuts and the consolidation and the 35 hours a week we still could have all of that money. There are only potentials. We have done that in the past. In the last two years I have been here revenues have been inflated. We are not going to make revenues this year because of that situation. There is no difference from last year to this year. I say this is a reasonable effort to come up with a compromise for the sake of our community.

Alderman Garrity responded Alderman Lopez I don't deny that there are probably needs out there but it is all on what the taxpayer can afford. It is all in what the taxpayer can afford. I would like a Cadillac in my driveway but I can't afford one.

It is not my money I am spending. It is all in what the taxpayer can afford and I think 8.14% is too much.

Alderman Lopez replied it is also a responsibility of the community to make those tough decisions and this is a tough decision.

Mayor Baines stated we can all have our positions and disagree.

Alderman Guinta stated I have a series of questions. The first one is with respect to the reduction from 40 hours a week to 35 hours a week, which has been mentioned last week and this week. Do we have the capability of making that decision or is that part of a negotiating issue?

Alderman Lopez stated two issues. You can do it with non-affiliated employees as long as we give them permission to do it and the second issue is unions. It would be up to the unions to negotiate it with us.

Mayor Baines stated there may be some voluntary...

Alderman Lopez interjected an example was when Ms. Porter came here the other night. As the Chairman of HR I had numerous employees approach me and say they would be willing to give up five hours a week as long as they don't lose their job and that is what this is all about. We are in a rough time and they would do it. Some people are better off financially and say I will take a week or two weeks. It happens.

Alderman Guinta stated it is an interesting concept. I guess the concern I have is we would be relying on...the only person who came forward was Ms. Porter who suggested that. I don't know if that was based on a discussion with the employees in here department and I don't know if any other department heads have talked to any of their employees about that so I don't know if it is appropriate for us to rely on that and I know that you didn't include it, your Honor, in your revised budget. I guess we can...I think that at least needs further review. I don't know that we can implement that in FY03. If we can, that would be great but it is not something that I would be willing to rely on. The second point I have is regarding consolidation and a hiring freeze. Can you explain to me why it is an either or in your revised budget?

Mayor Baines replied well there are some Aldermen and I will let them speak for themselves that feel that the number can be made up through freezing middle and upper management instead of consolidation. I think we need to look at both. I don't think the financial services ones we are prepared to deal with at this time. There are a number of positions that need to be reviewed if you ever start looking

at that and that is going to be a very time-consuming and painful process that we may not want to do at this time. We need to look at all aspects of the organization.

Alderman Guinta stated so you were being conservative when you tried to come up with that figure.

Mayor Baines replied yes.

Alderman Guinta stated the other issue I have is with respect to the School budget you had mentioned that back in 1999 if you were part of the process you would have tried to appropriate a certain amount of funds from the Claremont money. Why can we not try at this point to do something like that and start this year and try to work with the School Board who...most of the members are here. I understand that they don't like some of the budget numbers that have been proposed but if we are trying to insure that our future budgetary processes don't occur the way this one is, I think it would be fair and appropriate to at least consider trying to start taking some of that Claremont money and putting it aside. I wonder if the School Board would be open to that process starting in FY03?

Mayor Baines asked Mr. Clougherty do you want to comment on the financial situation. I have been told by the Finance Officer that they advocated for that and a number of communities took the advice that was given by our financial officer at the time and ours didn't. I think the issue now is that let's say if we took half that is a \$20 million cut in your revenue.

Alderman Guinta stated I am not even talking about half necessarily but something is better than nothing.

Mayor Baines replied it is all a cut in your revenues. This year it is relatively flat from Claremont. Next year perhaps when the State faces its obligation in terms of education there will be an opportunity to set some money aside. That is something we can certainly look at in the future. Whenever you are at a time in government or in anything when you have a significant increase in revenue, that is an opportunity. It doesn't happen very often.

Mr. Clougherty stated that is true and as the consultant said earlier it is a one shot because it is not guaranteed and you are better off diverting that into capital or other areas then building it into your operating budget.

Alderman Guinta asked so it would not be appropriate to take some of that money and set it aside.

Mr. Clougherty answered if you are going to receive additional dollars from the State beyond what you have now and those are general dollars that aren't earmarked for something in particular, we would advise using that for reserves and using that for purposes other than building up operating expenses.

Alderman Guinta stated I can certainly appreciate some of the amendments that are in this revised budget and I think we are working in the right direction although I do think given the sale of the garage and the \$200,000 in the parking revenue not being a stable entity it is going to be difficult to rely on those figures. I guess I would urge a little bit more retooling because what this says is 8.14% but theoretically it could be as high as 8.9% and I don't know if there is enough support for an 8.14% to 8.9%. I wonder if you can take this and try to retool it somehow given some of the other concerns that have been voiced this evening.

Alderman O'Neil stated I am hoping that with the hiring freeze on middle and upper management positions we can exceed \$870,000 if we are able to implement any department consolidation during the year, which I think is going to be difficult but I think it is something that is on the radar screen of not only you but my 14 colleagues or 13 colleagues. I think we can more than exceed that number but we have to be disciplined about it throughout the year in order to meet that number. Thank you, your Honor.

Alderman Gatsas stated my understanding is that this budget contains a step and 1%. If those aren't the negotiated items where do we find the other \$400,000 or whatever amount the percentage of the raises could be or is that just something we have thrown to the wind?

Mayor Baines replied we have salary adjustment.

Alderman Lopez asked can I answer that.

Alderman Gatsas answered this is the Mayor's budget so could I have him answer it.

Mayor Baines stated again we have different viewpoints and I would be glad to answer your question and if he wants to follow it up he can do so. In my budget as you know I included the steps within the budget. I also included a number for salary adjustment and those are the numbers that we have set aside. Now any increases beyond that obviously you are going to have a problem. You are going to have to find the money elsewhere or if things are not negotiated you have additional revenues. If, in fact, you negotiate some of the things we looked at in health insurance your numbers come down. There are a lot of variables in this. The same approach that any Mayor doing a budget includes salary adjustment and

we tried to do that and be realistic and I think we have been realistic in terms of this Board and in terms of the unions as well. That is basically my response to you.

Alderman Gatsas responded back to my first question, I am back to the leadership situation. I would think that the first thing you may have cut was \$2,600 out of the Mayor's budget because that would have at least in good faith shown the people in this City that you were willing to work with those cuts. I don't think \$2,600 would have devastated your budget.

Mayor Baines replied we are not talking about devastating but we have individuals in my office that right now work about 70 hours a week and I think they would be impacted in a way that no other employees are going to be impacted. We have a very small budget. We have very limited resources to serve the public and really we are the center of activity in City government. I think we have always set an example in our department trying to be prudent with our expenditures and not using travel funds, etc. I pay for all my own travel. I think we have been very prudent in managing the Mayor's budget and I will continue to do so in a way that represents the values that we are trying to promote in government. I appreciate your comment but I think you are wrong.

Alderman Gatsas stated well I think we should move to decrease the Aldermen by 1%.

Mayor Baines replied again it is all down to votes now. People can...

Alderman Gatsas interjected parliamentary question. I believe there is a tabled motion. Is it my understanding that before you can present your budget that the tabled motion should have come off the table and been voted up or down?

Deputy Clerk Johnson asked what tabled motion.

Mayor Baines answered there was a motion from the previous meeting that was tabled. There is a motion on the floor right now.

Alderman Smith stated it is like a Tale of Two Cities here. First we had a rainy day fund of which I was an advocate and it would have saved 2% on the tax rate and have funded some of the various agencies and now we are all crying wolf and saying the tax rate is too high. You can't have it both ways, fellas. You have to come to some conclusion.

Mayor Baines replied I could offer the same in terms of my proposal to try to bring responsible recycling to the community too. That would also reduce it or

add revenues of over \$1 million and perhaps save another \$300,000 to \$600,000. You are approaching almost \$2 million there. There are lots of things we can do and these are tough decisions, I agree.

Alderman Thibault stated the thing that bothers me is I believe that most of the Aldermen on this Board are certainly in favor of knowing that the schools are in dire need. We know that. We also should realize that the federal government does not pay its fair share either and we are the ones that are picking up the extras. I also agree with what Alderman Lopez says about some of our schools being in deplorable conditions. I have been out to many of those schools at many times and I have seen this. The thing that bothered me the most about last year's budget is that we had appropriated in the Joint School Committee money to fix some of these schools and that money was used elsewhere. I am not saying they didn't need it elsewhere but it was not appropriate there. It was appropriate to fix some of the problems in those schools and that wasn't done. That is what upset me about the schools last year. Now I know that they certainly need extra money and as you can see we also do. What are we going to do? We are going to try to live within what we have as best we can. I believe that is what they have to do also. In times like this they have to do that. I am certainly one that has always advocated to do the best we can for the schools but I can't go beyond this mile.

Alderman Shea stated I want to go into the reorganization a little bit. When you speak about saving so much money through reorganization does that mean that you are going to lay-off non-affiliated people? I am not quite sure how we are going to reap so much of a savings just be freezing middle and upper management positions. That is quite an amount. That is \$870,000 you have here and I am wondering between now and November are we going to start...

Mayor Baines interjected I think we can do a lot of this through attrition as people announce retirements. I think there are some pending retirements out there. There is also going to be some ability within certain departments to restructure in a way that is an appropriate response to that. I am not advocating this list of eliminating all of these positions. Those are the types of things that need a lot of planning and thoughtfulness. I think we can achieve the goal. Is it going to be difficult, Alderman? Yes.

Alderman Shea asked are these non-affiliated positions or union positions.

Mayor Baines answered this list came from Kevin so I will let him explain it.

Mr. Clougherty stated we just tried to give the Mayor some information in terms of what the accounting or financial related positions were in the City and we just listed them out. We didn't make any distinction with respect to their affiliation.

We just looked at what their function was. Was it accounts receivable and payable?

Alderman Shea replied I think that is quite important because obviously when you have a union affiliated employee that is contractually agreed upon and when you have a non-affiliated person who does not pay union dues and does not belong to a union that is a little different. We have control over that particular situation more so than the other situation. Would you agree with that?

Mr. Clougherty responded I wouldn't agree because if you eliminate those positions my understanding is that within the collective bargaining agreement they have bumping rights and things of that nature. It is not an easy process but I am just looking at it from the financial accounting and reporting and auditing functions and looking at how we can do it more efficiently and what are the positions involved.

Alderman Shea replied I think it is a generous position here where you are allocating \$870,000. I am not sure if we will be able to do that. Maybe you will with job freezes, etc.

Mayor Baines stated if people are willing to support those tough decisions in terms of filling jobs, yes and when retirements come about we are probably going to look at some significant changes within the department structures also.

Alderman Shea replied but you remember the other time when we had a downgrading from 26 to 23 it didn't pass the Board.

Mayor Baines responded I understand that. My proposal to put three departments together to save \$20,000 was rejected too but I think if some of these things come back before the Board I think there might be a different attitude about them. We'll see.

Alderman Wihby stated just for the record there is a 2.5% cut for the Aldermen in your number. MCTV, though, is a zero so there is not cut there. Three other things – bag and tag if you really believed in that you have veto power so you could have done that and left it in there and vetoed what we did. I just want to be on record, your Honor, that if you don't take a formal stance on the consolidation I can just tell you that I am going to bring these minutes with me next year that we are not going to move forward and we are not going to consolidate and you are not going to save any money unless you do that. Just by not filling positions until you get to \$870,000 does not solve the problem. It doesn't go away unless you make cuts in those positions and try to do things differently. Finally, your Honor, what do I tell the constituent who calls me and says my revaluation went up last year so

much and I am on a fixed income? What do I tell them, your Honor, other than call you at 624-6500?

Mayor Baines replied I think I have explained my position on the budget. I think I have explained the rationale and decisions that I was willing to make. At this time I think the community wants their schools to remain strong and they want police and fire protection and they want their health department protected in these very difficult times, especially with some of the challenges that we have faced since September 11. I think that is the response. That we tried to be responsible in meeting the obligations of our City for our children and the safety of our neighborhood. People will be able to respond to, in a timely fashion, an emergency. I have attended many tragic fires in this City as many of you have as well and know that the response of our Fire Department is critical. I have also seen our Police Officer's lives at stake as they have dealt with shootings in the City. We have also witnessed some tragedies in this community with public safety personnel. We have tried to be responsible, protect our community and keep it safe for all of us and at this time it is requiring us to pay a little bit more than any of us want to. That is how I would say it to the public.

Alderman Wihby stated this is close to a 9% increase when it comes down to it. The parking garage might not go through. It should be so that we tell everybody what the real number...it shouldn't be voted on, it should be amended and we should let people know exactly what this number is, your Honor.

Mayor Baines replied again revenues have always been projected in the budget by a vote of the Aldermen.

Alderman Wihby responded not when something hasn't been voted before or voted on already. Never has it been done as long as I have been here.

Mayor Baines replied well I think it puts a challenge there. I think we should sell it and I think maybe we should get a profit for it and return some of that money to the taxpayers. It is a different philosophy.

Alderman Wihby responded it is a challenge all right because you are forcing me now to sell a garage that I might not want to. You are telling this Board that if we okay this we are going to have to sell the garage.

Alderman O'Neil stated I thought we were going to take a slow approach on garages. It is before the Lands & Buildings Committee one night and they vote unanimously to sell it. That is a pretty good direction on where I think this Board is going. They are going to sell the garages or at least Canal Street. So for us to sit here and pretend that hasn't been discussed...it has been discussed and it was a

unanimous vote of the Lands & Buildings Committee. I just want to go back to this freeze. If you take a \$65,000 position with benefits that is about \$87,000 if my math is right. If we save 10 of those throughout the year, we meet our goal. I think we can exceed the \$870,000.

Mayor Baines stated I also believe and I am willing to work with Alderman Wihby and other Aldermen, I think there are savings that can be brought about through financial functions. I don't know if it is as dramatic as appears on this paper here but there are going to be some opportunities for us to do some things in a more efficient manner. We have been talking about that for the past year or so. I already put one proposal on the table to do that and it was rejected.

Alderman Gatsas stated I believe the Chairman of the Board has sent a letter to this Board about the parking garages and his concerns about why they were built and some other things so obviously he had some interest in the 5-0 vote that came out of Lands & Buildings to sell it. He had some concerns and I can appreciate those and we should discuss them.

Alderman O'Neil replied I still don't have a response yet, by the way.

Alderman Gatsas responded if you have been waiting as long as I have for the parking agreement at the civic center you could be waiting another two or three months. Again, that is neither here nor there. That is just money to the City and the revenues that we were looking at on the parking side. I don't know how to address that. Do I have to make it as some formal motion that we bring it to the full Board?

Mayor Baines replied again we are going to have to follow-up on that. I think your comments we can take into consideration.

Alderman Gatsas stated those are comments that I made three months ago.

Mayor Baines replied you are also a Committee Chair.

Alderman Gatsas asked of what.

Mayor Baines answered of the Committee on Administration.

Alderman Gatsas stated that had nothing to do with the Committee on Administration.

Mayor Baines replied but you could use your authority as Chairman of that Committee to bring people in and discuss issues. There are lots of different

approaches for that and I know that the Finance Officer and others are more than willing to discuss those issues at the request of the Board. That will be something subsequent to the adoption of this budget.

Alderman Gatsas stated then let us go down another road. The City service contract increase that you have in your budget from \$625,000...I guess it is for repairs in the School District. I am looking at a sheet that was given to us by the School District.

Mayor Baines asked the one that they handed out tonight. What is the question?

Alderman Gatsas stated I am looking at the Option A document that displays how we would attain this level budget by eliminating athletics. What does that mean?

Mayor Baines replied this is from...Ms. Stewart could you please come forward?

Vice-Chairman Stewart stated I didn't hear the question.

Alderman Gatsas stated I have a sheet here that I assume was distributed by the School District.

Vice-Chairman Stewart replied yes.

Alderman Gatsas stated underneath it says the Option A document displays how we would attain this budget level by eliminating athletics. Now maybe I misplaced...

Vice-Chairman Stewart responded you did not get the spreadsheets. What I did was put these sheets that were a little easier to read and understand in a quick amount of time in front of you. Our Finance...

Alderman Gatsas interjected is this Option A or Option B.

Vice-Chairman Stewart replied neither. What we are showing you on this sheet is the budget that we have this year, the cost increases that we have that we have ascertained bringing us to \$124 million showing you the difference between that and the Mayor's proposed budget or the \$3 million that Alderman Lopez was referring to earlier that was a net shortfall that we already know we will have at \$121 million or the Mayor's budget. What our Finance Manager did was give us some options to look at over the weekend in terms of how we would make cuts below the Mayor's budget should the Aldermen decide that we would get a 1% or 2% cut below the Mayor's budget. One option would be eliminating athletics \$1.6 million in our budget next year. The other option is the scenario that I put before

you. You will see a sheet that says additional cuts when we receive a 1% reduction from the Mayor's budget. That is what I put before you so that you can see some items that we would be looking at.

Alderman Gatsas asked this short sheet that you gave us, at the top it states Mayor's Budget Cuts From Our Original Budget. I just want to bring to Alderman Lopez's and Alderman Smith's attention regarding the deplorable conditions in the schools that you have eliminated \$810,000 in maintenance projects.

Vice-Chairman Stewart answered yes Sir because that is how we would have to get to that number.

Alderman Gatsas asked so those deplorable conditions will continue.

Vice-Chairman Stewart answered unfortunately that might be a decision we would have to make, yes. Not one that we would like to but we want to keep teachers in the classrooms.

Alderman Lopez asked the Mayor's original budget, is it \$128 million or \$121 million.

Vice-Chairman Stewart answered from the \$128 million to the \$121 million it says cuts from our original budget. It is that one.

Alderman DeVries asked in the handout that you gave us when you were making the budget comparisons you include a line item in there for your deficit reduction of \$500,000 indicating that it was not in the Mayor's budget.

Vice-Chairman Stewart answered the Mayor made some assumptions when he gave us the \$121 million budget. Those assumptions included salary increases for teachers, all contractual obligations and legal obligations and among those legal obligations, however, in our understanding of the Declaratory Judgement II action was that there needed to be a line item funded – a \$500,000 line item funded to address the deficit reduction.

Mayor Baines stated they have to do that.

Alderman DeVries asked so that is included in your budget, Mayor.

Mayor Baines answered when we do our budget we do a bottom line and what I said from the get go is there are going to be some severe management challenges for the new Superintendent coming in. We hope that with some day to day strong management over there we are going to be able to manage through this year but

this budget I have said repeatedly and with all due respect to people who want to cut even more, they are going to struggle to meet their basic obligations under this budget. This is real in terms of the numbers that we are dealing with on the school side.

Alderman Smith stated to get back to building maintenance, I was an advocate of cleanliness in the schools and I noticed you made a statement that you want teachers in there before cleanliness. I am very upset that the money wasn't used in the proper manner for building maintenance. I understand now that the School District only makes requests from Building Maintenance in the case of emergencies so we are going to be in even a worse situation next year. I can't understand why you can't take care of the maintenance and I can't understand why you don't have paper, etc. It just amazes me.

Vice-Chairman Stewart replied I would like to respond to that. There are a few answers to that question. One is that during this past year our health insurance experience was different then we budgeted for to the tune of about \$500,000. Second is that if you remember the City's debt was refinanced last fall and part of that debt that was refinanced was refinanced on behalf of the School District. Unfortunately where the City at the time of the refinancing was able to have about a \$350,000 net gain, the expense to the School District side in this school year is about \$220,000. I may be off a couple of thousand one way or the other but those two items alone made a \$700,000 difference in our budget and that is before we even begin to talk about increases in special education or special education transportation and some other items. Unfortunately as you know twice this spring we spoke to the Aldermen about possibly taking some of the surplus in the revenue and helping us with that. Unfortunately, the Department of Revenue felt that that wasn't allowed. We understand that and so we are in a tight situation and we are managing our money as best we can. One of the things that has to give unfortunately so is maintenance projects because we have legal obligations that we must follow through on.

Alderman Smith asked so in other words the other surplus wasn't a surplus at all but you used it for other expenditures in the School District.

Vice-Chairman Stewart answered no, Sir. You have a \$600,000 surplus that will be coming to you at the end of this year, June 30 of this year. It is a revenue surplus. We did not use it.

Alderman Shea stated you have prep period salaries. Could you explain that?

Vice-Chairman Stewart replied in the contract for the teachers, we are going to be entering the third year of the contract and there is a provision in this upcoming

year that all elementary teachers will have an additional preparatory period. They currently have three a week and this will be a fourth one. The secondary teachers have five a week. In order to fund that prep period, we need to offer another course and we are going to be hiring 18 health teachers on the elementary level to fund that contractual obligation.

Alderman Shea stated you and I know that health is very important at the middle and high school but wouldn't it make more sense to have enrichment programs for talented kids or a second language rather than health. Why are you deciding on a health course for children when obviously first graders, second graders and third graders would benefit more from other programs? What is the significance of this?

Vice-Chairman Stewart responded first of all the Curriculum Instruction Committee just adopted a K-12 health curriculum two to three months ago. Secondly, in looking at the preparatory period we asked the teacher's union to help us with that. Ellen Healy put out a survey to every teacher in the elementary schools asking them to rate a number of possible curriculums, about a dozen, on a 1-12 basis what would be the most important thing to offer. The most important thing that came out was computer science for youngsters, however, in order to initiate that program we needed to have a number of new pieces of technology in the classroom. That would have been an even larger expense so we couldn't do that so we had to go to the number two item and the number two item on the list was health. That is how we came to health.

Alderman Shea asked you are telling me that people at the elementary level consider health more so than remedial reading or spelling or math or something when you people ask repeatedly for additional reading people and teachers in school are constantly looking for methods and ways of helping kids with reading, writing and arithmetic and they are offering a health program. I don't understand that.

Vice-Chairman Stewart answered what I need to explain to you is that the curricula that we had to use to offer for this prep period needed to reach all children 1-5 grade. It wasn't just pockets of children that could be helped because remember the teacher needs to leave the classroom and the classroom then needs to be staffed by someone else so it wasn't a pocket situation but a curriculum that could cover all students in all grades 1-5.

Alderman Shea asked would this be reviewed by a new Superintendent. In other words would that particular person male or female make a judgement concerning how these people could be used or is that cast in stone? We are talking about almost \$800,000 to put 16 health people into K-5 classrooms. I can't for the life

of me figure out where we are saying that no child should be left behind and the point is that most children in school who are being left behind have problems with reading or spelling or language or math and we are introducing health to the tune of \$800,000. It doesn't make any sense to me. Does it make sense to you to do that?

Vice-Chairman Stewart answered I think health is extraordinarily important for all children and what we are finding is that the sooner we can initiate a health program for the students and get them involved in healthy habits the better off we will be in the long run. We had to come up with a way to support the prep period for the teachers in the least expensive way possible. That figure supports 18 teachers and then believe it or not only about \$75 per teacher for support materials to enact a health curriculum. It was very bottom line. Do I think that health is more important than reading or math? I hope I don't have to make those kinds of decisions. I think they are all important.

Alderman Pinard stated I have been hearing a lot of stuff tonight. Leslie, I have two things here. What is the warehouse?

Vice-Chairman Stewart replied currently we have a warehouse that supports paper supplies, extra textbooks if we have them, and some food service items. There is the rental cost of the warehouse, which is about \$25,000 a year and there is a warehouse manager with that. That salary I believe is about \$36,000 a year and if you add benefits we are looking at about \$50,000 or a savings of about \$75,000.

Alderman Pinard stated I was just curious because I never heard of a warehouse or a warehouse manager in the School District. My next question is about eliminating D.A.R.E. What does that cost the School District? I thought that was a function of the Police Department.

Vice-Chairman Stewart replied that program was funded by Federal funds up until this year. I don't know the number off the top of my head. I apologize for that. I don't have it here. Ron Chapman had to go back for our Finance meeting at 8:30 tonight so I don't have that number but I would be happy to get that to you. That is a program that we are not anxious to eliminate. We like that program very much. We have had a wonderful relationship with the Police Department and we think those programs are important so that isn't something we would like to do any more than we would like to have to eliminate library books.

Alderman Pinard stated but if it is a federal grant I don't get the tie in between the Police Department, the School District and the feds.

Vice-Chairman Stewart replied the federal funding has now finished. If we were to continue the program we would have to pay the bill for the D.A.R.E. program.

Alderman Pinard asked who pays the Police Department. Chief Driscoll can you help me out with this? Can you enlighten us on how the D.A.R.E. program works between the Police Department, the School District and the Federal government?

Chief Driscoll answered as you folks know both the D.A.R.E. and the G.R.E.A.T. program are programs that we have had in the schools along with the Officer Friendly program for many, many years. We did receive federal funding under the COPS Program. It was a three-year program. That funding has expired. We now work with Ron Chapman and have agreed upon a figure and we consider that a chargeback to the School Department as directed by the Finance Department.

Alderman Pinard asked is there anything that we can do as City officials with the Congressional staff to try to get money restored.

Chief Driscoll answered that is a pleasing thought but I don't think so.

Alderman Gatsas asked Committeewoman Stewart I need to have you explain in gory details about the warehouse elimination because if we are sitting here talking about devastating schools and you had a warehouse person that was overseeing a warehouse for some \$40,000 a year...how long has that person been in this budget.

Vice-Chairman Stewart answered I believe about three years, however, I should tell you that I don't believe that is his only responsibility. I think that is his part-time responsibility. I think he has other responsibilities in the School District also.

Alderman Gatsas stated other responsibilities however we eliminated...your Board came to us for graduation money and for reduction of spring sports and now you are eliminating a warehouse person and those kids didn't have sufficient uniforms or baseballs and we paid for graduations at the Verizon Center and you had a warehouse person.

Vice-Chairman Stewart stated we have had a warehouse for a number of years. A few years back I think the Mayor will remember when he was a principal at West High School we added a warehouse to enact savings. In other words, we could buy a large amount of paper at one time and a large amount of furniture at one time and put those things in the warehouse to enact savings. In the last few years what has happened is with companies like Staples and W.B. Mason and others who are willing to do next day delivery when you sign a contract with them for a year, we found that the warehouse isn't as cost efficient as it had been in the past

so Mr. Chapman has now looked to another company for this coming year who will help us save money by eliminating the warehouse and by not having to store supplies but having delivery directly to the schools when needed.

Alderman Gatsas stated I guess in your previous statement you talked about...obviously this budget is laying over and you stated that if the taxpayers in the City of Manchester were to come down and show the same visual position that we had seen other City employees do...so if there were 10,000 people that swarmed City Hall tomorrow night to tell you that maybe they don't appreciate a 9% tax increase what would you do at that point.

Mayor Baines replied you have been here as long as I have. It all comes down to the vote of the Aldermen. I have put a proposal on that addresses the issues that I believe can be addressed in the City. It is up to the Aldermen to vote it up or down.

Alderman Gatsas stated with all due respect I proposed a budget a few days ago and you took a tabling motion before we could even vote on it. Now would it be appropriate for me to table this? I don't think you would accept that motion would you?

Alderman Gatsas moved to table the budget presented by the Mayor.

Mayor Baines stated there are a couple of things I want to discuss for.

Alderman Gatsas replied it is non-debatable. Will you accept it or not?

Mayor Baines responded I am going to clarify a couple of things you said because you are not always accurate. Number one, on the parking issue the Clerk will refer to...you know chastising me for not taking charge of an issue and I welcome constructive suggestions and I have also talked to you about consolidations and asked you to sit down and work with me on those issues...

Alderman Gatsas interjected I have never been invited to your office.

Mayor Baines replied I have called you many times to seek your advice on many issues and you know that.

Alderman Gatsas stated not on consolidation.

Mayor Baines stated I talked to you personally about it but that is okay. The Clerk will advise the Board where that issue that Alderman Gatsas accused me of not taking leadership on is.

Deputy Clerk Johnson replied the request to review the contract is sitting with the Civic Center Committee and I don't believe the Civic Center Committee has held a meeting yet and none is scheduled. The Deputy Finance Officer was requested to bring that report in to the Committee.

Alderman Gatsas asked what about my motion to table.

Mayor Baines answered I haven't accepted it.

Alderman Lopez moved the question. Alderman DeVries duly seconded the motion. Alderman Wihby requested a roll call vote. Aldermen Wihby, Gatsas, Guinta, Sysyn, Pinard, Shea, and Garrity voted nay. Aldermen Osborne, O'Neil, Lopez, DeVries, Smith, Thibault and Forest voted yea. Mayor Baines voted yea. The motion carried.

Mayor Baines asked would the Clerk read the motion.

Alderman Gatsas asked do I understand correctly that you need 10 votes for bonding so the CIP budget, if cuts aren't made there appropriate, that you may not have the votes for bonding. Is that correct?

Deputy Clerk Johnson stated I don't understand his question. CIP is not in this budget.

Alderman Gatsas replied I understand that we are consolidating two budgets to move at the same time. The parliamentary question I have is that if both budgets go together you need 10 votes for that budget. Is that correct?

Deputy Clerk Johnson responded no. The motion on the floor is to amend the second resolution which was read relating to "Raising Monies and Making Appropriations for the Fiscal Year 2003" and it would be amended to the amounts outlined in the handout distributed by the Mayor. Again, it is only to amend. At this point it is not a layover. It is merely amending the resolution to that amount.

Mayor Baines asked and then there would be a motion to layover.

Deputy Clerk Johnson answered there would be either a motion to layover or you could accept further amendments to the resolution.

Mayor Baines called for a vote.

Alderman Wihby asked are we voting on accepting the amendment.

Deputy Clerk Johnson answered yes. You are voting on amending the numbers in the resolution to the amounts distributed by the Mayor.

Alderman Wihby asked and if I thought that an 8% to 9% increase was too much and the taxpayer couldn't afford it and people on fixed incomes are going to be hurt by this and we solve the housing shortage by having a housing surplus by this would I vote no.

Deputy Clerk Johnson answered you could vote either way.

Mayor Baines stated you could but if you also wanted to make a statement that you want our schools protected and our streets safe and the Fire Department to be able to respond in a timely fashion and our Health Department prepared to respond to an emergency on bio-terrorism or things of that nature you might vote yes.

Alderman Wihby replied your Honor you cut the Health Department 2.5% didn't you.

Mayor Baines responded no. Didn't we exempt Health?

Mr. Robinson replied no.

Alderman Wihby asked do you want to put the money back in.

Mayor Baines answered I wouldn't mind that.

Alderman Wihby asked do you want to amend it and put it back in since you care about September 11 and everything else. We talk big, your Honor, as far as September 11 and we always try to use that for an excuse but I don't think this Board would be voting for anything that they thought was going to affect safety in the City.

Mayor Baines stated I correct myself on Health. I added...the accounting change was in the Health Department to accommodate the concerns that Mr. Rusczek presented.

Alderman Shea asked if your budget were approved tonight, that would be the official budget.

Mayor Baines answered no it has to layover.

Alderman Shea asked so we could amend your budget tomorrow if we so wished.

Mayor Baines answered right.

Deputy Clerk Johnson stated what is on the floor now is to amend it to the new numbers the Mayor has presented. When that motion is concluded, at any point in time up until the final adoption of the resolution, this Board can change that amount. It can be changed any time up until June 11.

Alderman Shea stated my point is does that become the official Mayor's budget if it goes through.

Deputy Clerk Johnson replied no. The Mayor has presented you a budget originally. That is the official Mayor's budget, the one that was originally submitted that is on the resolution at this time before the amendment. If you amend it right now, you are amending it as a Finance Committee. It comes out to the full Board. The full Board acts on it. Let's say the Mayor still vetoes it. At that point you still go back to the Mayor's original budget. You do not go back to the budget you just amended at any point in time unless that is the budget you pass.

Alderman Smith asked if we go back to the old budget am I correct that it is 12%.

Mayor Baines answered that is correct.

Alderman Wihby stated we could also make cuts and bring it down to a 0% if we wanted to, right. This is not to say that we are accepting your number?

Mayor Baines replied it all comes down to the votes as you know. The Clerk will call the roll starting with Alderman Wihby. Aldermen Wihby, Gatsas, Guinta, Sysyn, Shea, and Garrity voted nay. Aldermen Osborne, Pinard, O'Neil, Lopez, DeVries, Smith, Thibault and Forest voted yea. The motion carried.

Deputy Clerk Johnson stated you can either accept motions for further amendments or the next motion would be that both resolutions ought to pass and layover, the second as amended.

Alderman Lopez moved that the resolutions ought to pass and layover, the second one as amended. Alderman Thibault duly seconded the motion. Alderman Wihby requested a roll call.

Alderman O'Neil asked for a clarification on both resolutions.

Deputy Clerk Johnson answered the School District for \$121,148,267 and the regular operating budget for the amount set forth by the Mayor tonight.

Alderman Lopez asked on the 35 hours a week, would that be a separate motion later on.

Deputy Clerk Johnson answered going to 35 hours a week would not be part of your resolution.

Aldermen Wihby, Gatsas, Guinta, Sysyn, Shea and Garrity voted nay. Aldermen Osborne, Pinard, O'Neil, Lopez, DeVries, Smith, Thibault and Forest voted yea. The motion carried.

There being no further business, on motion of Alderman Smith, duly seconded by Alderman DeVries, it was voted to adjourn.

A True Record. Attest.

Clerk of Committee